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## **MMA - End Stage Renal Disease (ESRD) Composite Payment Rate System Changes**

Note: This article was revised to contain web addresses that conform to the new CMS web site and to show they are now MLN Matters articles. All other information remains the same.

### **Provider Types Affected**

Renal dialysis facilities billing Medicare fiscal intermediaries (FIs) for dialysis services

### **Provider Action Needed**

Renal dialysis facilities should note that this special edition article provides the latest information regarding changes to the ESRD Composite Payment Rate System.

### **Background**

The ESRD Medicare payment for dialysis services has been made based on an established amount, known as the *composite rate*. The composite rate is a single payment amount that is not varied according to the characteristics of the beneficiary treated.

This rate includes the cost of some drugs, laboratory tests, and other items and services provided to Medicare beneficiaries receiving dialysis. Some drugs and biologicals, laboratory test and other services are paid separately from the composite rate. Drugs that were separately billable were paid based on the Average Wholesale Price (AWP). Epogen (EPO), a separately payable drug, was not paid at the AWP; rather, it was paid at \$10.00 per 1,000 units.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), Section 623, includes major provisions which affect the development of revised ESRD composite payment rates effective for outpatient dialysis services furnished on or after January 1, 2005.

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The MMA statute mandates the following:

- The current composite payment rates have been increased by 1.6% for dialysis treatments furnished on or after January 1, 2005; and
- The composite payment rates as increased by the 1.6% must also include a drug add-on adjustment in the amount of 8.7% for the difference between the payment amounts for separately billable drugs and biologicals and their acquisition costs, as determined by the Office of the Inspector General's reports to the Department of Health and Human Services.

Therefore, effective January 1, 2005, the Centers for Medicare & Medicaid Services (CMS) has changed the way ESRD facilities are paid for dialysis treatments and separately billable drugs as follows:

- Increase the composite rate payments by 1.6%;
- Pay for separately billable drugs based on acquisition costs or average sales price plus 6%; and
- Include an 8.7% drug add-on adjustment.

#### ***Base Composite Rate 1.6 % Increase***

Effective January 1, 2005, independent facility rates have increased 1.6% from \$126.33 per treatment to \$128.35 per treatment, and hospital-based facility rates will increase from \$130.32 per treatment to \$132.41 per treatment.

#### ***Payment for Separately Billable ESRD Drugs***

Effective January 1, 2005:

- The top 10 most frequently used ESRD drugs are paid at the 2005 Average Acquisition Price (AAP) (see Table 1).
- Other ESRD drugs are paid at the Average Sales Price (ASP) plus 6%.
- Facilities are paid separately for syringes used for administering EPO.
- Hospital-based facilities will continue to be paid cost for separately billable drugs except EPO, which will be paid AAP.

**Table 1: Calculated 2005 AAP Amount**

Drug	2005 Average Acquisition Payment Amount
Epogen (EPO)	\$9.76
Calcitriol	\$0.96
Doxercalciferol	\$2.60
Iron dextran	\$10.94
Iron sucrose	\$0.37

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Levocarnitine	\$13.63
Paricalcitol	\$4.00
Sodium ferric gluconate	\$4.95
Alteplase, Recombinant	\$31.74
Vancomycin	\$2.98

### *Drug Add-on Adjustment*

The drug add-on adjustment is 8.7%, which increases the composite rate by \$11.17 for independent facilities and \$11.52 for hospital-based facilities. (See Table 2 below.)

**Table 2: Composite Rate Adjustment for Drug Spread Single Add-on Adjustment**

	Base Composite Rate with 1.6% Increase	Base Composite Rate with 8.7% Drug Add-on (2005)
Add-On%	1.6%	8.7%
Independent	\$128.35	\$139.52
Hospital-Based	\$132.41	\$143.93

Providers are also encouraged to report and code co-morbidities on ESRD claims. See Change Request (CR) 3554, Transmittal 27, Dated November 23, 2004, Subject: New ESRD Composite Payment Rates Effective January 1, 2005, at <http://www.cms.hhs.gov/transmittals/Downloads/R27BP.pdf> on the CMS web site.

### *Limited Case-Mix Variables Effective April 1, 2005*

In accordance with the Social Security Act (Section 1881(b)(12)(A)), as added by the MMA (section 623(d)(1)):

“The Secretary shall establish a basic case-mix adjusted prospective payment system for dialysis services furnished by providers of services and renal dialysis facilities in a year to individuals in a facility and to individuals at home. The case-mix system would be for a limited number of patient characteristics.”

Use of a case-mix measure permits targeting of greater payments to facilities that treat more costly resource-intensive patients.

CMS is using a limited number of characteristics that explain variation in reported costs for composite rate services consistent with the legislative requirement. The current composite payment rates will be adjusted for individual patient characteristics and budget neutrality for services furnished on or after April 1, 2005.

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An ESRD facility's average composite payment rate per treatment will depend on its unique (patients) case-mix. The patient characteristic variables that are utilized in determining an individual patient's case-mix adjusted composite payment rate include the following:

- Five age groups as shown in the following table;

Age	Multiplier
18-44	1.223
45-59	1.055
60-69	1.000
70-79	1.094
80+	1.174

- A low Body Mass Index (BMI): There will be a case-mix adjustment of 1.112 for patients with a BMI less than 18.5 kg/m<sup>2</sup>;
- A Body Surface Area (BSA, meters<sup>2</sup>); and
- A separate case-mix adjustment for pediatric patients:
  - A case-mix adjustment factor of 1.62 will be added for ESRD patients under age 18.
  - BSA and BMI adjustments do not apply to pediatric patients.
  - Pediatric ESRD facilities may request an exception to the composite rate.

**Note:** This adjustment is for the basic case-mix adjusted payment. Section 623 of the MMA requires the Secretary to submit a Report to Congress and to establish a Demonstration Project that will be used to develop a more fully-bundled case-mix adjustment payment system for ESRD services.

See Change Request (CR) 3720, Transmittal 477, Dated February 18, 2005, Subject: New Case-Mix Adjusted End Stage Renal Disease (ESRD) Composite Payment Rates and New Composite Rate Exceptions Window for Pediatric ESRD Facilities at <http://www.cms.hhs.gov/transmittals/downloads/R477CP.pdf> on the CMS web site.

### ***Budget Neutrality***

Budget neutrality is designed to ensure that total aggregate payments from the Medicare Trust Fund do not increase or decrease as a result of changes in the payment methodology.

Therefore, a budget neutrality adjustment will be applied to the case-mix adjusted composite rate payments beginning April 1, 2005. The case-mix budget neutrality adjustment to the composite rate is 0.9116.

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Effective March 7, 2005, ESRD facilities should begin to report the following two new value codes:

- Value code A8 – Patient Weight in Kilograms
- Value code A9 – Patient Height in Centimeters

Effective April 1, 2005, ESRD facilities must report value codes A8 and A9. Claims will be returned to the dialysis facilities prior to payment if values codes A8 and A9 are not completed.

### *Timeline for Future Changes*

The following provides an overview of the planned timeline and future changes:

#### **January 1, 2005**

- 1.6% composite rate adjustment
- Drug payment calculation changes

#### **February 4, 2005**

- Publish revised conditions of coverage

#### **March 7, 2005**

- Report new value codes

#### **April 1, 2005**

- Value codes A8 and A9 must be reported on claims
- New exception window for pediatric facilities that did not have an approved exception rate as of October 1, 2002
- Case-mix adjustment will take effect

#### **Mid-2005**

- Proposed rule will be published for 2006 updates

#### **January 1, 2006**

- Demonstration to test revised system will begin

### *Calculation of Case-Mix Adjusted Payment*

#### **Example 1**

#### **Adjusted Composite Rate System**

The following example presents a patient dialyzing at Neighbor Dialysis, an independent ESRD facility located in Baltimore, MD.

#### **Calculation of Basic Composite Rate for Neighbor Dialysis**

Wage adjusted composite rate for independent facilities in Baltimore, MD: \$134.93

Wage adjusted composite rate increased by drug add-on adjustment \$134.93 X  
1.087 = \$146.67

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Adjusted Facility Composite Rate after budget neutrality adjustment:

$$(\$146.67 \times 0.9116) = \$133.70$$

John Smith attains age 18 on April 10, 2005 and undergoes hemodialysis. John weighs 75.5 kg and is 181.5 cm in height. Because John Smith attains age 18 on April 10, he is considered age 18 for the entire month of April and would not be classified as a pediatric patient.

#### Calculation of Case-Mix Adjusted Payment

The BSA and BMI for John Smith will be calculated by the PRICER program used to compute the composite payment for each patient based on the height and weight reported on the UB-92 (the weight that is recorded at the latest clinic visit for this hemodialysis patient). The computations of the BSA and BMI for John Smith are shown below:

$$BSA = 0.007184 \times (\text{height})^{0.725} \times (\text{weight})^{0.425}$$

$$BSA = 0.007184 \times 181.5^{0.725} \times 75.5^{0.425}$$

$$BSA = 0.007184 \times 43.4196 \times 6.2824 = 1.9596$$

$$BMI = \text{weight}/\text{height(m)}^2$$

John Smith is 181.5 cm in height, which converts to 1.815 meters.

$$BMI = 75.5/1.815^2 = 22.9191$$

The case-mix adjustment factor for John Smith, an 18 year old whose BMI exceeds 18.5 kg/m<sup>2</sup> and has a BSA of 1.9596 is calculated as follows:

$$\text{Age adjustment factor (age 18–44)} = 1.223$$

$$\text{BMI adjustment factor (BMI} \geq 18.5 \text{ kg/ m}^2\text{)} = 1.000$$

$$\text{BSA adjustment factor } (1.037^{1.9596 - 1.84/0.1}) =$$

$$\text{BSA adjustment factor } (1.037^{1.196}) = 1.0444$$

Case-mix adjustment factor

$$(1.223 \times 1.000 \times 1.0444) = 1.2773$$

Basic case-mix adjusted composite payment

$$(\$133.70 \times 1.2773) = \$170.77$$

#### Example 2

Linda Jones is age 16 and undergoes peritoneal dialysis at Community Hospital, a hospital-based facility in New York City. Linda weighs 35 kg and is 160.0 cm in height. The basic composite rate for Linda Jones is calculated as follows:

Wage adjusted composite rate for hospital-based facilities in New York, New York:  
\$146.35

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Wage adjusted composite rate increased by drug adjustment factor  
 $(\$146.35 \times 1.087) = \$159.08$

Adjusted Facility Composite Rate after budget neutrality adjustment  
 $(\$159.08 \times 0.9116) = \$145.02$

Because Linda is a pediatric ESRD patient, the automatic pediatric adjustment factor of 1.62 applies. Neither the age, BMI, nor BSA adjustments are applicable because Linda is less than age 18. Pediatric adjusted composite rate

$(\$145.02 \times 1.62) = \$234.93$

If Community Hospital were entitled to a composite rate exception, then the provider could elect to retain its exception rate in lieu of receiving the otherwise applicable pediatric payment rate of \$234.93.

## Questions (Q) & Answers (A)

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The following Qs and As are offered to address some of the key questions you may have regarding these changes:

***Q. How do we code height and weight for value codes A8, and A9 on billing forms?***

A. Weight is coded in kilograms. Weight is to be recorded post dialysis (i.e., dry weight) and is the weight that is recorded at the last clinic visit. Height is to be coded in centimeters. Height is to be entered as the patient presents. Patients with bilateral lower extremity amputations will be coded as they actually present. Both height and weight are to be entered for the last dialysis session for the billing period.

***Q. How often should height be measured?***

A. The height is entered for the last dialysis session for that billing period. Height should be measured for the initial or first billing period and may be assessed periodically, as reasonable or if the facility notes any changes in the patient.

***Q. When are height and weight coding to begin being entered on the bill?***

A. Due to systems difficulties in accepting value codes A8 and A9, all facilities should begin coding both height and weight on the bills effective March 7, 2005. Beginning for dates of service on or after April 1, 2005, the bills will be returned to the dialysis facilities prior to payment if values codes A8 and A9 are not completed.

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***Q. How many comorbid conditions should be entered, and should such conditions as bi-lateral lower extremity amputations be coded?***

A. There is space for up to 10 comorbid conditions. CMS recommends that facilities enter as many comorbid conditions as the patient has. These conditions will be used to do additional research for both refining the basic case mix system and in support of the development of the fully bundled payment system. In addition we will be developing a system to monitor both the basic and fully bundled payment system.

For the purposes of this monitoring system, we are recommending that if a patient is an amputee that this code be entered as a comorbid condition. CMS is specifically interested in monitoring bilateral amputations of the lower extremities and will be very interest in monitoring the following ICD-9 CM codes: 879.6 (bilateral), 897.7 (complicated) and 897.5 (NS, complicated). In addition, CMS is planning to monitor selected V codes for amputation, i.e., V49.75 (below the knee) and V49.76 (above the knee).

## Additional Information

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To review official instructions issued to your FI regarding the ESRD Composite Payment Rate System, go to Change Request 3539, Transmittal 348, Dated October 29, 2004, Subject: January 2005 Quarterly Average Sales Price (ASP) Medicare Part B Pricing File, Effective January 1, 2005. This can be found at <http://www.cms.hhs.gov/transmittals/Downloads/R348CP.pdf> on the CMS web site.

Change Request 3554, Transmittal 27, Dated November 23, 2004, Subject: New ESRD Composite Payment Rates Effective January 1, 2005 can be found at <http://www.cms.hhs.gov/transmittals/Downloads/R27BP.pdf> on the CMS web site

Change Request 3554, Transmittal 373, Dated November 19, 2004, Subject: New ESRD Composite Payment Rates Effective January 1, 2005 can be found at <http://www.cms.hhs.gov/transmittals/Downloads/R373CP.pdf> on the CMS web site.

Change Request 3720, Transmittal 477, Dated February 18, 2005, Subject: New Case-Mix Adjusted End Stage Renal Disease (ESRD) Composite Payment Rates and New Composite Rate Exceptions Window for Pediatric ESRD Facilities can be found at <http://www.cms.hhs.gov/transmittals/downloads/R477CP.pdf> on the CMS web site.

To review the ESRD Composite Payment Rate System Fact Sheet, go to <http://www.cms.hhs.gov/MLNProducts/downloads/ESRDCompRatePaymentSys.pdf> on the CMS web site.

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To review the MLN Matters article related to CR3554, go to:

<http://www.cms.hhs.gov/MLNMattersArticles/downloads/MM3554.pdf> on the CMS web site.

To review the MLN Matters article related to CR3539, go to

<http://www.cms.hhs.gov/MLNMattersArticles/downloads/MM3539.pdf> on the CMS web site.

To review the MLN Matters article related to CR3720, go to

<http://www.cms.hhs.gov/MLNMattersArticles/downloads/MM3720.pdf> on the CMS web site.

The following web pages are provided as a resource to obtain additional relevant information:

- MMA Legislative Summary including MMA Section 623, at <http://www.cms.hhs.gov/MMAUpdate/downloads/PL108-173summary.pdf> on the CMS web site;
- ESRD Information Resource for Medicare Page, which includes the ESRD Calculator in the “Resources” Section, at <http://www.cms.hhs.gov/center/esrd.asp> on the CMS web site.
- Federal Register, Vol. 69, No. 219, November 15, 2004, at [http://www.afehct.org/pdfs/HHSRF11\\_15.pdf](http://www.afehct.org/pdfs/HHSRF11_15.pdf) on the CMS web site.

If you have further questions, please contact your Medicare FI at their toll-free number, which may be found at <http://www.cms.hhs.gov/apps/contacts/> on the CMS web site.

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